

Arizona college savings plan adds equity-indexed CD

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The Arizona Commission for Postsecondary Education has officially added a certificate of deposit (CD) linked to the return of the S&P 500 Index to the investment offerings within the nationally available Arizona 529 college savings plan.

As of 1 August, parents and grandparents who are helping their children and grandchildren save for future college expenses may contribute toward the five-year CD, the first tranche of which will price and issue on 1 November. Subsequently, issuance will take place four times per year in February, May, August and November.

“With today’s volatile mutual fund markets, our CD options provide a conservative investment that really meets the need,” executive director of the Arizona Commission Dr April Osborn told SRP. The Commission is the state organization which runs the Arizona 529 college savings plan. The FDIC insurance for deposits up to \$100,000 provides an added level of assurance and is especially popular with grandparents, she added. The Arizona plan’s oversight committee had been studying the addition of an equity-indexed CD for a while to determine if the investment was appropriate and how the back office worked.

The Arizona plan has been offering a totally different type of CD whose return is linked to an underlying index which tracks to the rise in college costs for up to 22 years. This CD acts like a college cost prepayment investment product.

Like the current CDs, the new InvestorSure CDs will also be issued by College Savings Bank of Princeton, NJ, but will offer a return that is tied to the performance of the S&P 500. The participation rate for the capital-protected plan will be determined at issuance but will be equal to at least 85% of the upside return of the equity index. A third, fixed rate CD will be added to the Arizona plan in September.

“Right now consumers are looking for shelter,” chief marketing officer for the College Savings Bank, Dan Davenport told SRP.

The new Arizona issue is similar to that launched in Montana in November 2007. The first equity-linked CD issuance under the Montana plan raised \$1m, with two subsequent offerings raising roughly \$2m each, said Davenport.

Local investors in the Arizona 529 college savings plan, which is offering the InvestorSure CDs both through financial advisers as well as directly from its web site, will also benefit from an income tax deduction of up to \$750 for heads of households/\$1,500 for married filers. The new CD will be advertised via direct mail, newspapers, billboards and possibly through video news releases, said Davenport.